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Annual Report and Financial Statements Syndicate 2488

CHUBB®

31 December 2016

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President's Report

Syndicate 2488 is managed by ACE Underwriting Agencies Limited ("AUAL") and is one of the pre-eminent specialty insurers in the London market.

2016: A Remarkable Year

In January 2016, ACE Limited acquired The Chubb Corporation to become the world's largest publicly traded property and casualty insurer. I was truly excited by the prospect of these two highly regarded insurance companies coming together, and the opportunities that it would bring for the group in Europe. I'm pleased to report that our plans for a fully integrated business are coming to fruition and the reality is as good as, if not better, than I'd hoped for.

As a combined organisation, we benefit from complementary business lines, greater market presence and deeper technical expertise. We have more in-depth client knowledge and have gained experience in new industry sectors. And we now benefit from a wider distribution network and better access to independent brokers across Europe.

We have made huge steps in integrating the companies this year. We have in place experienced leadership to guide the business into the future and co-located many of our teams. I believe we have earned the respect of brokers, partners and clients, both in our interactions with them and in our expanded capabilities in finding solutions to their risk challenges.

The syndicate delivered excellent results for 2016 despite the continuance of challenging market conditions and the additional workload that integration has brought. Gross written premiums increased to £407.5 million and the syndicate produced underwriting profits of £79.3 million. Profit on exchange of £1.6 million and a strong investment performance, generating returns of £46.1 million, brought the profit for the year to £127.0 million. Further detail relating to our financial performance can be found in the Managing Agent's Report.

Rising to the Challenges of 2017

If 2016 proved anything, it was how difficult it is to make predictions. As insurers, we face an uncertain and rapidly changing landscape and we must be ready and more agile than ever in responding to new developments, challenges and risks on behalf of our brokers and clients.

The insurance industry environment in the Lloyd's and London Markets is incredibly difficult. Insurance rates have reached, or are in danger of reaching, unsustainable levels in many classes and with so much capital, both traditional and alternative, relatively benign loss experience over the past few years and continuing high levels of prior year reserve releases, it is hard to see why conditions should change significantly in the near term. So the way in which insurers define and implement their business appetites, underwriting discipline, risk selection, portfolio management and use of data could well be the differentiators that separate the winners from the losers over the next few years. We at Chubb are well prepared to rise to the challenges and the opportunities that will present themselves. We will continue to write for underwriting profit and I am confident we have the focus and the discipline to allow us to perform strongly and with margin to reinvest for the future.

We are cognisant of the need to remain relevant in a constantly changing environment. There are new types of risk entering the marketplace every day – many reflecting the technological advances that have begun to define the world we live in today. We remain a key player in our chosen fields and are actively working to create new niche, packaged and enhanced tailored insurance and risk management solutions, which are more accessible to our customers and address their evolving needs. We also need to look beyond the traditional insurance policy and go beyond purely financial compensation. We must go deeper into risk management, loss control and "hands-on" crisis response.

The events of 2016 have underlined to me the critical importance of values and culture in insurance. We will continue to focus on our clients, pooling our skills and expertise with our partners to provide the strategic counsel and risk management expertise they need. We pride ourselves on delivering superior customer service and outcomes, and adhere to clear and agreed service standards through risk management, compliance and conduct governance practices in all areas of the business.

President's Report

Finally, I want to acknowledge the dedication and commitment of my colleagues throughout the region and thank everyone who has supported Syndicate 2488 this year – the leadership teams, the underwriters, the support staff and of course all of our brokers, partners and clients. 2017 will bring with it a new set of opportunities and challenges and I am excited to be leading AUAL through the year ahead.

A J Kendrick

President

17 March 2016

Managing Agent's Report

The Board of Directors of the syndicate's managing agent, ACE Underwriting Agencies Limited ("AUAL") are pleased to submit their report and the audited syndicate annual accounts for the year to 31 December 2016.

This report and accounts are prepared using the annual basis of accounting as required by the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ("the 2008 Lloyd's Regulations"). In addition to this statutory requirement, the report also addresses other aspects of the syndicate's business which the Board believes will be of benefit to interested parties.

Ownership

Chubb Limited, the ultimate parent of AUAL, is the Swiss-incorporated holding company of the Chubb Group of Companies ("Chubb"), several separately incorporated insurance and reinsurance companies under the common ownership of Chubb Limited. At December 31, 2016, Chubb Limited held total assets of \$159.8 billion and shareholders' equity of \$48.3 billion. It is listed on the New York Stock Exchange (NYSE: CB) and is a component of the S&P 500 index. The company maintains executive offices in Zurich, New York, London and other locations, and employs approximately 30,000 people worldwide.

Consolidation of Chubb's Lloyd's Entities

Chubb operated two Lloyd's syndicates during 2016: Syndicate 2488 managed by AUAL, and Syndicate 1882 managed by Chubb Managing Agency Limited ("CMAL"). In order to optimise operational and governance efficiencies, AUAL assumed the management of Syndicate 1882 through a Deed of Novation of the Managing Agent Agreement on 30 September 2016. The transfer of assets and business from CMAL to AUAL was effected by a Business Transfer Agreement on 12 October 2016, with the renewal rights to Syndicate 1882's business transferred to Syndicate 2488's captial provider, Chubb Capital I Limited, through a Renewal Rights Transfer Agreement also on 12 October 2016.

Syndicate 1882 formally ceased to trade on 31 December 2016, with elements of the portfolio being renewed into Syndicate 2488 with effect from 1 January 2017. As a result, the capacity of Syndicate 2488 has increased from £350.0 million in 2016 to £405.0 million for 2017. It is anticipated that Syndicate 1882's 2016 & prior years of account will be reinsured to close into Syndicate 2488 in due course.

Potential Impact of the UK's Exit from the European Union

On 23 June 2016, the United Kingdom voted in a national referendum to withdraw from the European Union ("EU"). This unprecedented process will be triggered by invoking Article 50 of the Lisbon Treaty, paving the way for what is expected to be two years of negotiations to agree the terms of the UK's departure and its future relationship with the EU.

AUAL fully supports Lloyd's commitment to the European markets following the Brexit vote, and its work to protect Lloyd's relationships with its European partners, and shares its desire for the Government to secure access to the single market. However, the AUAL Board has considered potential risks and uncertainties arising from the result of the referendum and the possible impact on the future performance and position of the business, and has in place contingency plans should the UK's exit from the European Union impede AUAL's current operational model and business practices.

Business Overview

Chubb is the world's largest publicly traded property and casualty insurer. With operations in 54 countries, Chubb provides commercial and personal property and casualty insurance, personal accident and supplemental health insurance, reinsurance and life insurance to a diverse group of clients.

The company is distinguished by its extensive product and service offerings, broad distribution capabilities, exceptional financial strength, superior claims handling expertise and local operations globally.

The company serves multinational corporations, mid-size and small businesses with property and casualty insurance and risk engineering services; affluent and high net worth individuals with substantial assets to protect; individuals purchasing life, personal accident, supplemental health, homeowners, automobile and specialty personal insurance coverage; companies and affinity groups providing or offering accident and health insurance programs and life insurance to their employees or members;

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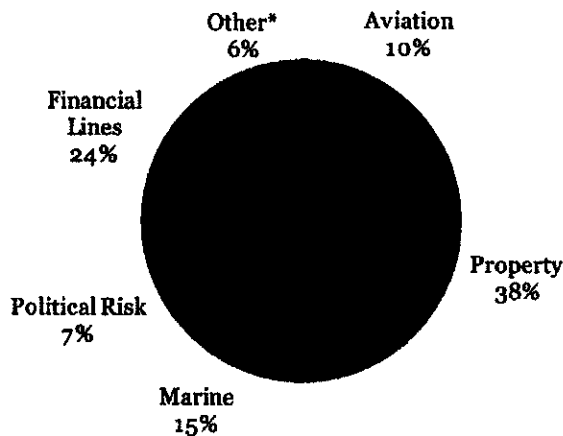
Syndicate 2488 is a strategically important business within Chubb, allowing the group to access specialist Lloyd's London market risks. The syndicate offers its clients a broad range of insurance and risk solutions, with policies written under the brand names "Chubb Global Markets" and "Chubb Tempest Re". These brands capitalise on the distinctiveness and strength of the Chubb name and acknowledge the company's strong insurance platforms, reputation, skill sets and consistent management philosophy.

The structure of the syndicate's operations allows the underwriters formal and informal interaction with their Chubb underwriting peers across the world. With longstanding client relationships and multi-line global platforms, Syndicate 2488 enjoys a position as a lead insurer in the key lines in which it chooses to compete, with a significant presence in the Lloyd's market.

Chubb Global Markets ("CGM") and Chubb Tempest Re ("CTRe") underwriting products are offered principally through Syndicate 2488 and ACE European Group Limited ("AEG"), a UK domiciled company which offers a wide range of property, casualty and accident and health insurance and reinsurance products to both retail and wholesale markets. Business may also be written through a number of overseas Chubb companies. Factors influencing the decision to place business with the syndicate, AEG or an overseas company include licensing eligibilities and capitalisation requirements, but predominantly reflect client and broker preference.

Syndicate 2488 underwrites a diverse portfolio of business organised into product lines including aviation, property, marine, political risks and financial lines.

Syndicate 2488 gross written premium split by major product line (2016)



* Other includes A&H, energy, international casualty, environmental liability, terrorism and other lines.

Syndicate 2488 benefits from comprehensive and fully integrated support functions encompassing claims, finance and actuarial, risk management, legal and compliance, human resources, operations and IT.

Managing Agent's Report

Business Objectives & Strategy

AUAL has market-leading risk expertise, a disciplined approach to underwriting and is fully committed to meeting the insurance needs of its clients. It is distinguished by its ability to manage the challenging and constantly changing external environment, the clarity of its strategy and the thoroughness of its execution.

AUAL's strategy focuses on an established underwriting ethos that permeates the business. Top line growth is not the primary driver for the syndicate and underwriters are fully prepared to shed volume as necessary in order to maintain an underwriting profit. Using AUAL's underwriting skills and targeted marketing strategies, the syndicate aims to generate growth in areas where risk-adjusted underwriting margins are favourable, and achieve better terms or shrink business where they are not.

The syndicate's product line segmental structure enables underwriters to manage each business class at a detailed level, essential for the identification and analysis of the characteristics, challenges and opportunities of each class. Rating adequacy, competition, volatility and margins are analysed at a micro level by the underwriting teams with significant input from AUAL's actuaries and management team.

AUAL strives to offer superior service levels in all aspects of the syndicate's operations, particularly claims, and it continues to invest in technology to improve its operational efficiency, underwriter support and broker interfaces.

AUAL is committed to protecting and preserving its assets. It operates a conservative investment strategy and has maintained its focus on cash flow management and liquidity to secure its long term position in the Lloyd's insurance market.

Investment Strategy

Syndicate 2488 operates a conservative investment strategy by establishing highly liquid, diversified, high quality portfolios managed by expert external managers. Detailed Chubb Group investment guidelines are established for each managed portfolio including Chubb customised benchmarks against which the manager performance is measured.

Syndicate 2488 maintains five active and one indexed investment grade fixed income portfolios, held in US dollars, sterling, Canadian dollars and euros. In addition, the syndicate maintains a US dollar investment grade portfolio in respect of the Funds in Syndicate and an actively managed US dollar high yield portfolio, the focus of which is upper tier high yield fixed income securities, targeting average Moody's quality of "B" or higher. The approximate currency split of the syndicate investment portfolios is US dollars 77%, sterling 7%, Canadian dollars 9% and euros 7%. Syndicate 2488 held no equities in 2016.

No significant changes to the existing asset allocation or investment strategy were made in the year and the syndicate continued to maintain diversified actively managed portfolios with exposure to a broad range of sectors.

Presentation of Financial Statements

The basis of preparation of Syndicate 2488's annual financial statements is in accordance with the 2008 Lloyd's Regulations and applicable accounting standards in the United Kingdom. These financial statements recognise a calendar year profit and loss, driven by net earned premium and net incurred losses arising on that net earned premium.

Managing agents are required to prepare syndicate underwriting accounts, similar to those previously prepared on a three year underwriting basis in respect of any year of account which is being closed by reinsurance to close, unless all the members on the closing year agree otherwise. Syndicate 2488 became a fully aligned syndicate, with 100% of the underwriting capital provided by Chubb corporate capital vehicles, with effect from 2003. The Chubb corporate capital vehicles have agreed to waive their right to syndicate underwriting accounts in respect of Syndicate 2488's closed 2014 year of account and, as such, no information on this basis has been provided within this report and annual accounts.

Managing Agent's Report

Key Performance Indicators

The following financial key performance indicators ("KPIs") have been deemed relevant to the company's business. These KPIs are reviewed regularly by the AUAL Board.

£ million	2016	2015
Gross premiums written	407.5	377.5
Net premiums written	317.6	289.1
Combined ratio % *	74.5%	81.3%
Profit for financial year	127.0	56.4

* Ratio of net claims incurred, commission and expenses to net premiums earned, excluding profit / loss on exchange

Management also uses a variety of other performance indicators, including production volumes, retention ratios, price monitoring, loss and expense analyses, and operating metrics in assessing the performance of each of the product lines. All financial results are monitored against plan, forecast and prior year on a regular basis.

AUAL seeks to manage syndicate capacity levels in order to make the most effective use of available capital and has set the 2017 capacity of Syndicate 2488 at £405.0 million.

Results & Performance

Syndicate 2488's business is principally conducted in US dollars however, for accounting purposes, the financial results are presented in sterling. Syndicate 2488's functional currency is US dollars. The significant depreciation of sterling against the US dollar during the year has impacted the comparison of the elements of the profit and loss statement against those of the prior year.

Syndicate 2488 produced a profit for the financial year of £127.0 million and a combined ratio of 74.5%. A summary of the reported financial results is shown in the table overleaf.

£ million	2016	2015
Gross premiums written	407.5	377.5
Net premiums written	317.6	289.1
Net premiums earned	310.9	289.4
Incurred losses	114.6	121.8
Operating expenses	117.1	113.5
Underwriting profit	79.3	54.0
Profit / (loss) on exchange	1.6	(3.7)
Investment return	46.1	6.1
Profit for financial year	127.0	56.4
Combined ratio %	74.5%	81.3%

Rating Environment

There was no respite in competition for CGM's wholesale business during the year, and a number of accounts were non-renewed due to inadequate rating or terms. Overall pricing on renewal business was negative, driven by adverse rate movements, notably within the aviation and energy portfolios.

Conditions in the reinsurance market remained difficult as a consequence of over supply. Whilst the rate reductions were not as pronounced as the previous years, the market seemed more concerned with top line share rather than bottom line profitability.

The high transaction costs traditionally associated with the London Market continue to put pressure on the combined ratio. Brokers continue to push for increased remuneration and specific agreements and facilities continue to inundate the market,

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making some accounts less mobile or more expensive to underwrite. AUAL continues to leverage its position as a lead insurer to ensure that all commissions payable are justified and bring additional value to the syndicate.

Drivers of Underwriting Result

Gross written premiums were 7% higher than those reported in 2015 however the growth was driven by the significant depreciation of sterling against the US dollar during the year. If the impact of currency movements is excluded, top line premiums shrank by approximately 3%, reflecting adherence to AUAL's strict underwriting criteria against a backdrop of continued challenging market conditions.

The syndicate purchases reinsurance to mitigate the impact of major events and an undue frequency of smaller losses. The programmes are primarily product line specific with some related lines protected by consolidated programmes, and the reinsurance purchasing process benefits from the strong relationships built up with key reinsurers over the years. The syndicate seeks to limit its loss exposures by purchasing reinsurance up to its maximum line sizes and accumulations and natural catastrophe cover is purchased with reference to modelled 1 in 250 year events. The principal reinsurance programmes operated by the syndicate during 2016 were partly shared with other Chubb companies including ACE European Group Limited. There were no major changes to the syndicate's reinsurance programme in 2016.

After relatively benign natural catastrophe loss experience over the past few years, 2016 was hit by a number of devastating earthquakes and powerful storms. Global economic losses totalled approximately US\$175 billion, with insured losses estimated at US\$50 billion¹. Syndicate 2488's exposure to large losses is managed by adherence to clear risk management and underwriting guidelines and the use of reinsurance protection and sophisticated modelling and analysis. Catastrophe losses net of reinsurance recoveries and reinstatement premiums during 2016 amounted to £16.1 million (2015: £13.6million) with the most significant losses emanating from hurricane activity and flooding in the US.

Prior period reserve releases amounted to £141.3 million (2015 restated: £85.3 million) due primarily to favourable experience within aviation, property and financial lines.

Excluding catastrophe losses and prior period development, the accident year loss ratio for the year was 75.5% (2015 restated: 66.9%) which demonstrates the strength of the syndicate's underlying business.

Operating expenses constitute acquisition costs, Lloyd's subscriptions, Central Fund contributions and general administrative expenses (as part of the managing agency fee). AUAL continues to focus on the management of each of these components in line with the growth and needs of the business.

Financial Markets Review

Volatility ebbed and flowed in 2016, with plummeting oil and commodity prices at the start of the year giving way to the surprising outcomes of the UK's Brexit referendum and the election of Donald Trump in the US. The year was also defined by a divergence in economic policy, as the Federal Reserve ("Fed") raised rates in December, while the European Central Bank ("ECB") continued easing.

Early in the year, global growth concerns in the midst of uncertainty from China, falling commodity prices and questions about the efficacy of central bank policies sparked a sell-off in risk assets. Despite the elevated volatility in financial markets, the fundamental backdrop remained mostly intact and supportive central banks helped reignite risk appetite in part with calming rhetoric and actions. The ECB announced additional easing measures in Europe, with a focus on credit expansion. Also, concerns about global influences and financial conditions kept the Fed on hold, with the statement suggesting a tolerance for overshooting their inflation target.

However, in late June, the unexpected outcome of the UK's Brexit referendum dominated headlines and market movements. Departing from the prevalent trend that began in mid-Q1 and extending through much of June, volatility began to rise as sovereign yields rallied significantly while risk assets generally underperformed. Still, the fundamental backdrop remained

¹ Source: Munich Re press release, 4 January 2017

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mostly intact and expectations for further central bank easing helped anchor risk appetite. Steadier commodity prices and fiscal stimulus in China helped bolster market sentiment, even as central banks remained on hold ahead of the referendum. Softer-than-expected employment data pushed market expectations for the next Fed rate hike out to 2018.

As the year progressed, markets shook off the impact of the Brexit vote and volatility decreased. Central banks featured prominently in the headlines as monetary policy concerns, in particular, the longevity of central bank support, lingered beneath the seemingly benign market environment. The Bank of Japan's "comprehensive review," the ECB's inaction, and the Fed's solidifying path towards an eventual December rate hike all contributed to sovereign yields generally rising.

Following the surprise election of Donald Trump, the market reaction was almost as surprising. In less than a day following Trump's decisive victory, volatility fell, equities rallied, credit spreads tightened and the dollar strengthened. Meanwhile, rates rose dramatically as most markets focused on the pro-growth and inflationary potential of expansionary fiscal policy, tax cuts, and deregulation. The risk seeking sentiment continued through December, even as market participants absorbed the potentially damaging protectionist rhetoric of the incoming Trump administration, leaving bond yields substantially higher than the lows levels witnessed earlier in the year.

Investment Performance

Economic activity in 2016 provided a positive environment for fixed income investors. Yields on intermediate investment grade bonds fell significantly during the year for sterling and euro denominated portfolios. For Syndicate 2488 this resulted in total returns of 6% and 3.5% for sterling and euro mandates respectively. In the US, intermediate government yields increased modestly and investment grade corporate yields were broadly unchanged in 2016. For Syndicate 2488, this resulted in total returns of around 2.8% for US dollar investment grade mandates. In Canada, investment grade fixed income yields rose by around 20bps in the year and Syndicate 2488's indexed portfolio generated a total return of 1.6% for 2016.

Syndicate 2488's alternative investment assets were entirely comprised of upper tier US dollar high yield bonds during the year. The allocation, constituting less than 11% of the total portfolio, generated strong absolute returns in excess of 11% for the year.

Overall, Syndicate 2488 generated a total return of 3.7% on balances available for investment during 2016.

Cash Flow

Total syndicate cash flow derived from operating activities in the year was negative and funds decreased in the year as a result of the distribution of the 2013 year of account profits and funds released to member.

Financial Position

Capital

Solvency II regulation came into force on 1 January 2016. Syndicate capital requirements are determined through the submission and agreement by Lloyd's of a Solvency Capital Requirement ("SCR") adjusted by Lloyd's through the application of a market wide uplift of 35%, which is referred to as the Lloyd's Economic Capital Requirement.

The Prudential Regulation Authority ("PRA") conducts reviews directly with Lloyd's on the overall SCR for the Lloyd's Market rather than at a syndicate level. The Lloyd's internal model obtained approval from the PRA in December 2015 for use in setting its statutory capital. Under the governance processes surrounding the Lloyd's internal model, the syndicate is obligated to ensure compliance with Lloyd's requirements for the internal model tests and standards, and processes are in place to meet this obligation

In order to determine the Solvency Capital Requirement, the syndicate assesses its risk profile and capital requirements using an internal model which has been developed to meet Solvency II requirements. The internal model is supported by a robust validation and governance framework which ensures its ongoing appropriateness and is refined to reflect the syndicate's experience, changes in the risk profile and advances in modelling methodologies. For 2017, the SCR shows an increase compared with the 2016 requirement.

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The syndicate maintained capital throughout 2016 in line with both the Solvency Capital Requirement and the Lloyd's Economic Capital Requirement.

Syndicate 2488 meets its Funds at Lloyd's ("FAL") requirement by the provision of fixed income investments held within the syndicate which are designated as Funds in Syndicate. The overall quantum of FAL for 2016 year end decreased to \$590 million (2015: \$604 million), due to a slight reduction in the Economic Capital Assessment following the annual review in 2016.

Ratings

All active syndicates benefit from the financial strength ratings assigned to the Lloyd's market by various rating agencies. Lloyd's currently holds financial strength ratings of "A (Excellent)" from A.M. Best, "A+ (Strong)" from Standard & Poor's and "AA- (Very Strong)" from Fitch. In view of these robust ratings, together with Chubb's core operating insurance companies ratings of "A++" and "AA" from A.M. Best and Standard & Poor's respectively, it has not been considered necessary to obtain an individual rating for the syndicate.

Governance

AUAL has a documented corporate governance framework, the purpose of which is to exercise oversight and control over the management of its own and the syndicate's business.

The AUAL Board of Directors ("the Board") has reserved responsibility for decisions in connection with a number of matters, including those of a significant strategic, structural, capital, financial reporting, internal control, risk, contractual, policy or compliance nature. The Board meets routinely at least six times a year and may meet additionally on other occasions to discharge its responsibilities in respect of these and other matters. The Board met fourteen times in 2016.

The AUAL Board comprises six independent non-executive directors and five executive directors. During 2016 one executive director and one non-executive director left the Board and one executive and one non-executive director joined. Membership of the Board is kept under review to ensure that the composition and available expertise remains relevant to the current needs of the company. In 2016 the non-executive director that joined the Board had previously served also as a director of CMAL; in an environment when the functions of the two companies were becoming closely aligned this enabled AUAL to take advantage of existing board level experience of Syndicate 1882's business model. AUAL greatly values the contribution of its non-executive directors in providing contrasting insights, experience and challenge in the Board's discussions. Details of director appointments and resignations can be found on page 17.

Key non-routine Board activity during the year included, i) consideration of plans for the integration of syndicate 1882's agency management with syndicate 2488's operations, ii) formalisation of the high level underwriting control framework, iii) consideration of conduct risk control frameworks and performance of the business and adoption of revised formal frameworks for customer and financial crime monitoring, iv) information security risk mitigation, v) assessment of the company's approach to gauging its culture, vi) consideration of the approach to capital management, vii) review of the status and effectiveness of integration of the functions supporting both AUAL and CMAL during the process of alignment of the two syndicates and viii) consideration of the revision of certain policies in support of the alignment.

The Board received regular reports on the status of business results, business and function plans, resourcing, developments in the risk and regulatory environments, regulatory compliance, actuarial and solvency matters. One meeting was set aside to consider high-level business.

The Board has delegated a number of matters to committees. Each of the following committees has formal terms of reference and matters reserved to it. Each, with the exception of the Executive Committee, Product Oversight Committee and the Routine Business Committee, includes non-executive directors in its membership and each reports to the Board regularly in respect of its remit. The terms of reference of each Board committee were reviewed and refreshed in 2016, but not significantly amended.

The **Audit Committee**, which comprises exclusively non-executive directors, considers and makes recommendations to the Board on areas including validation of solvency calculations, internal controls, financial reporting, whistleblowing, actuarial matters and the external audit. It receives reports from the compliance, actuarial and finance functions and Internal Audit on a quarterly basis.

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In relation to the external audit process, the Committee monitors the nature and scope of work in the audit of the financial statements and other external reporting requirements. It meets regularly with the external Auditor without management being present.

In the case of the internal audit function, the Committee's role involves agreeing and monitoring, in conjunction with the group audit function, the nature and scope of work to be carried out by the internal audit team and the availability of sufficient resources. The Audit Committee kept a close review of the Internal Audit resources during 2016 to ensure that they remained adequate to carry out the annual audit plan for the year.

The Committee's role is aimed at providing assurance to the Board and Chubb group management that the internal control systems, agreed by executive management as being appropriate for the prudent management of the business, are operating as designed. At all times the Audit Committee is expected to challenge any aspect of these processes which it considers weak or generally poor practice.

During 2016 the Committee in particular reviewed the approach taken to validation of internal model results, and also considered the effect on the finance and assurance functions of the integration of the two syndicates' operations.

The Board has delegated responsibility for the oversight and implementation of its risk management framework to the **Risk Committee**. The Committee oversees and advises the Board on risk exposures, future risk strategy, the design and implementation of the risk management framework into the business and on solvency and capital matters. It also ensures that business risks and controls are recorded and monitored. It receives regular reports on the Company's "Own Risk and Solvency Assessment" metrics, required by Solvency II, which helps to provide an independent overview of management's assessment of risk and a check against risk appetites agreed by the Board.

During the year the Risk Committee's non-routine activity included: i) reviewing reports on the improvement being made in cyber and information security and the development of the Cyber Risk Framework; ii) observations on the implementation of the Conduct Risk Framework; iii) consideration of integration risk during the alignment of AEGL and CICE systems and personnel and the impact to company culture; and iv) assessing the potential outcomes for the UK/European Union referendum and subsequent implications to the Company's operations.

The **Product Oversight Committee** provides organisation-wide consistent oversight in respect of conduct towards customers, receiving management information in line with the revised customer conduct control framework. The Committee's members include senior management representatives including those for all major lines of business. Non-Executive Directors are also invited to attend these meetings.

The remit of the **Nominations Committee** is to advise and recommend in connection with appointments to and the structure of the Board, including diversity and independence of composition, Board evaluation, succession planning for the non-executive directors and leadership needs.

The **Executive Committee** comprises executive directors and other members of the senior management team. The primary role of the Committee is to oversee the day-to-day management of business operations and performance, and to assist the President in implementing and overseeing operational strategies and decisions determined by the Board. The Executive Committee is also responsible for the oversight of support function activities, key steering groups and sub-committees including investment, credit risk, internal model steering, broker review, reserving and project reporting. It meets monthly to oversee and discuss current issues. A number of specialist sub-committees, such as those for broker credit control and reserving, report to the Executive Committee to ensure that various aspects of the business are reviewed by a wide senior management group.

AUAL has a **Routine Business Committee** which meets on an ad hoc basis between formal Board meetings to consider authorisation of routine activity.

Managing Agent's Report

Risk & Control Framework

The Chubb Group is a global underwriting franchise whose risk management obligation to stakeholders is simple: ensure sufficient financial strength over the long term in order to pay policyholder claims while simultaneously building and sustaining shareholder value.

The Chubb Enterprise Risk Management ("ERM") strategy helps achieve the goal of building shareholder value by systematically identifying, and then monitoring and managing, the various risks to the achievement of corporate business objectives and thereby minimising potential disruptions that could otherwise diminish shareholder value or balance sheet strength.

AUAL has adopted the Chubb Group Enterprise Risk Management Framework ("RMF"), which describes the role of ERM within AUAL and how it helps the syndicate achieve its business objectives, meet its corporate obligations and maintain the reputation of the Chubb franchise. Chubb's documented RMF is principles-based and sets out the organisational framework for risk taking, monitoring and governance.

The RMF adopts a "three lines of defence" model, comprising day-to-day risk management and controls, risk management oversight, and independent assurance.

The RMF identifies the key risks to which each business sector, and the syndicate as a whole, is exposed, and their resultant impact on economic and regulatory capital. This framework employs Solvency II principles to assess risk and manage capital requirements to ensure the capital required to support AUAL's business objectives and to meet the requirements of policyholders and regulators.

The Board is ultimately responsible for ensuring that the company operates within an established framework of effective systems of internal control, including the approval of the overall risk tolerance for the organisation and compliance with policies, procedures, internal controls and regulatory requirements.

The Board's oversight of the RMF is effected through the various committees and functions with particular purposes and direction around the monitoring of risk tolerances and oversight of internal controls and compliance procedures. The risk management function has a strong mandate from the Board to promote the RMF and embed it across the syndicate.

The RMF was re-approved by the Board in 2016 together with a review of individual risk policies and risk appetite statements which set out defined risk-tolerance constraints for the execution of the business strategy. All key policies and procedures are subject to Board approval and ongoing review by executive management, the Risk Committee and internal audit function.

Principal Risks

The RMF classifies individual risk sources into four major categories: insurance, financial, operational and strategic. Insurance is Chubb's primary risk category; the three other risk categories present an exposure primarily from that assumption of insurance risk.

Other risks, including group risk and emerging risk are also considered. Risks associated with integration are considered but are not considered to be a new source of risk, rather these risks are extensions of previously identified risk sources.

Insurance Risk

The principal risks from the syndicate's insurance and reinsurance business arise from its underwriting activities, both prospective and retrospective. Key risks include unexpected losses arising from inaccurate pricing, fluctuations in the timing, frequency and severity of claims compared to expectations, inadequate reinsurance protection and inadequate reserving.

Underwriting risks and line sizes are continually monitored through the established peer review process and automated exception reporting. Each underwriter is given an authority based on technical expertise and experience to bind risks that fall within specified classes of insurance and specified maximum limits. Formal price monitoring procedures are in place and form part of the standard monthly management statistics. These contribute to the quarterly actuarial review whereby the loss outcome of the underwriting activity is continually re-assessed and considered by the Reserve Sub-Committee.

With such a large and diverse book, it is vital that the syndicate's aggregate exposures are continually monitored and adjustments made to the underwriting profile as appropriate. Chubb operates a dedicated catastrophe management function

Managing Agent's Report

independent of underwriting management, whose responsibility is to model aggregate risk and assist with the pricing of this risk, providing a key control to the underwriting process.

Reinsurance is used to help mitigate some of the above insurance risk. However, the possibility of reinsurance risk itself arises when reinsurance purchasing proves inadequate in amount, fails to protect the underlying coverage or falls short when the reinsurer fails to pay.

Financial Risk

Financial risk includes a wide range of risks associated with activities such as investments, credit, liquidity and the impact of foreign exchange fluctuations:

- Investment risk includes the impact of market volatility on asset values attributable to such factors as interest rate movements and / or price changes.
- Credit risk arises from the possibility that the financial position of our counterparties deteriorates, and financial loss in the event of creditor default.
- Liquidity risk refers to the possibility that cash or equivalents, coupled with operating cash flows, will be insufficient to provide for claims payments to policyholders and other needs such as interest payments.
- Foreign exchange risk occurs when assets and liabilities are denominated in different currencies and materialises when asset holdings are decreased or liabilities increased by exchange rate movements.

Details of how the syndicate manages its exposure to financial risk are set out below:

The Investment Function

The managing agency operates an Investment Committee which functions under terms of reference determined by the Executive Committee of the AUAL Board. The Investment Committee is charged with establishing and effecting an appropriate investment policy for the syndicate. In addition the Committee has the responsibility for recommending the appointment and removal of investment managers, for reviewing the managers' performance and for reporting on all other material aspects of the investment function.

The Investment Committee comprises senior Chubb management and is chaired by the Chief Executive Officer of Chubb Asset Management, the group's investment specialists who provide advisory services to Chubb Group companies. The Committee also includes the President, the Chief Financial Officer and Treasurer of AUAL.

The investment management function is out-sourced to specialist external managers.

Asset allocation policy

The Investment Committee has established a broad asset allocation policy which defines the limits for different asset types. The asset allocation cites two major asset classes: investment grade fixed income securities and alternative assets. Alternative assets can include equities, high-yield and emerging market instruments although, of these, the syndicate currently only maintains high-yield instruments. The policy stipulates a maximum allocation to high-yield instruments and equities of 15% and 10% respectively.

Investment guidelines

Investment management agreements have been established with the external investment managers. The agreements include specific guidelines for each individual portfolio in order to limit risks arising from duration, currency, liquidity, credit and counterparty exposures. The managers provide quarterly affirmation of compliance with the guidelines.

Duration and interest rate risk

The investment guidelines include restrictions relating to the maximum weighted average duration of the portfolio. The restriction is stated by reference to the permissible duration variance compared to the customised benchmark index by which the external investment managers' performance is assessed. The benchmarks have been established to provide comparable duration to the insurance liabilities.

Managing Agent's Report

Equity price risk

The syndicate's exposure to equity price risk is moderated through the asset allocation policy, which limits this category of asset and the investment guidelines. The investment guidelines restrict individual equity holdings relative to the size of the portfolio and the benchmark constituents. No equities were held by the syndicate during the year.

Currency risk

The syndicate maintains five separate currency funds: US dollars, Sterling, Canadian dollars, Australian dollars and Euros. The syndicate seeks to ensure an approximate currency match of assets and liabilities, subject to regulatory funding requirements.

Liquidity risk

Liquidity risk is the potential that the syndicate is unable to meet its obligations as they fall due. To counter this risk the syndicate aims to maintain funds in the form of cash or cash equivalents to meet known cash flows. In addition the asset allocation policy and the investment guidelines are structured in order to ensure that funds are predominantly held in investment grade fixed income securities, the proceeds of which are readily realisable. The syndicate also benefits from Chubb group letter of credit facilities which are available to meet certain funding needs, although no such facilities are currently utilised by the syndicate.

The syndicate participates in a notional pooling programme with other Chubb group companies under a facility operated by Bank Mendes Gans, a subsidiary of ING, which specialises in global liquidity management. The facility operates by the notional pooling of designated balances of the Chubb Group participants in order to provide additional liquidity. Chubb Group participants may overdraw individual account balances to fund immediate short term needs against credit balances held elsewhere within the pool. At year end the syndicate had an overall net overdrawn balance in the notional pool of £3.9 million, being £113 million of credit balances in Australian dollars, US dollars, Chinese renminbi and Euros, net of £116.9 million overdrawn Sterling, Swiss franc and Canadian dollar balances.

Credit risk and counterparty limits

The investment guidelines seek to limit the credit risk of each of the portfolios through specifying eligible / ineligible investments, setting maximum counterparty exposures, and setting minimum weighted credit and individual issuer credit quality.

The syndicate is also exposed to credit risk through the use of reinsurance to manage insurance risk. Reinsurance does not discharge the syndicate's liability as primary insurer. If a reinsurer fails to pay a claim, the syndicate remains liable for the payment to the policyholder. The managing agency operates a reinsurance security Committee. The creditworthiness of reinsurers is considered on a quarterly basis by reviewing their financial strength. In addition the recent payment history of reinsurers is used to update the reinsurance purchasing strategy.

Operational Risk

Operational risk is the possibility of loss resulting from inadequate or failed internal processes, people or systems, or from external events other than those falling within strategic risk as defined below. Significant operational risk sources include claims processing, IT security, outsourcing and vendor management, business continuity, fraud, and regulatory compliance (including conduct risk).

AUAL seeks to ensure that the syndicate is not exposed to operational risk in excess of the risk appetite with mitigating strategies (including business continuity plans) that have appropriate controls around key operational procedures and processes.

Strategic Risk

Strategic risk refers to the outcome from sub-optimal decisions that may be made or not made in respect of strategic planning, execution of strategy or responsiveness to changes in industry or competitive landscapes.

Managing Agent's Report

The AUAL Board is responsible for the management of strategic risks by approving the strategic and annual plans. The Board also receives updates on the execution of the plan with reports produced to monitor and track business performance against the approved plan.

A key strategic risk continues to be the integration of AUAL with other Chubb legal entities following the acquisition. The risks associated with the integration will continue to be measured and monitored on an on-going basis using the Chubb RMF.

The strategic risks associated with the UK's withdrawal from the EU were measured and monitored throughout 2016 using the Chubb RMF. Contingency plans are in place, where the risks associated will continue to be measured and monitored on an on-going basis.

Other Risks

Group risks: This is the potential impact on the syndicate of risks arising in other parts of the Chubb Group. This could include direct or indirect financial loss and operational, reputational or regulatory issues. As a strategically important member of the Chubb Group, the syndicate uses Group resources in a number of areas, including IT and asset management, as well as reinsurance and capital support. Group risk is assessed, monitored and reported as part of AUAL's risk management processes. Additionally, contractual intra-group arrangements are governed in an appropriate arms-length manner. They involve formal contracts, equitable and transparent transfer pricing, and full respect for the integrity thereof, as well as all laws and regulations facing the legal entities in question.

Emerging risks: An integral part of risk management framework is the identification and assessment of emerging risks. AUAL has defined emerging risks as any events, situations or trends that may arise within its internal and external operating environment that could significantly impact the achievement of its corporate objectives in either the short or long term. There is an internal system for the identification, assessment and monitoring of such risks with reports issued to senior management including analyses which are often iterative in nature and conclude with recommended action plans that can be implemented to minimise or otherwise manage the emerging risk.

Compliance

Compliance with regulation, legal and ethical standards is a high priority for Chubb and AUAL, and the compliance function has an important oversight role in this regard. Annual affirmation of the Chubb Code of Conduct is required of all employees and directors.

As a material subsidiary of Chubb Limited, a US listed company, the financial control environment in which the US GAAP financial statements are derived is subject to the requirements of US Sarbanes-Oxley legislation. AUAL has formalised documentation and tested controls to enable Chubb Limited to fulfil the requirements of the legislation.

AUAL is also committed to fulfilling its other compliance-related duties, including its observance of customer-focused policies, in line with regulatory principles, and it uses various metrics to assess its performance.

The managing agency employs a skilled and specialist workforce to manage its regulatory and compliance responsibilities and aims to operate to a high standard. AUAL recognises and values its relationships with regulators in each of its jurisdictions and engages in open dialogue and communication to address and resolve any issues.

Employees

Chubb is dedicated to providing a safe and ethical working environment for its employees and is fundamentally committed to the creation of an inclusive, respectful and equitable workplace. Through its policies and practices for recruitment, development, retention and promotion, AUAL seeks a diverse workforce that is effective in its local markets and communities, and takes full advantage of a wide range of experiences and backgrounds.

Chubb is an equal opportunities employer and it is company policy to promote equality of opportunity and to avoid unlawful discrimination in employment. The company seeks to create a workplace where all employees, agency staff and contractors are treated appropriately, equitably and with dignity and respect.

Managing Agent's Report

Chubb is an organisation dedicated to providing superior underwriting, service and execution, and seeks to foster an environment of professional excellence that enables employees to be creative, agile, innovative and ethical in meeting customers' needs, whilst aligning personal development to the company's performance objectives. AUAL actively supports the personal and professional development of all its employees and operates talent and leadership development programmes to help staff realise their full career potential. The company operates a performance management process designed to allow each employee's performance to be objectively reviewed and measured so that AEGL can maximise potential, motivate, celebrate success and set clear expectations of its employees that are aligned to the company's strategic aims.

Communication with employees is primarily effected through the corporate intranet and regular briefings and presentations by Chubb Limited's Chief Executive Officer and local senior management. Information provided is intended to present employees with key information on performance, strategy, market data and general information on the company. Employees are also provided with opportunities to raise questions in each of these forums.

AUAL supports a wide range of activities that benefit the community through the Chubb International Foundation and the Chubb Community Support Committee, predominantly in the areas of education, poverty, health and the environment. Employees also participate in a number of local voluntary community schemes including the Lloyd's Community Programme, and personal fundraising efforts are also actively supported by AUAL through a charity-matching scheme.

Directors

The following have been directors of the managing agent from 1 January 2016 to the date of this report unless otherwise indicated:

Executive directors:

A J Kendrick

M K Hammond

R P Murray

J U Rehman (appointed 13 June 2016)

A M W Shaw (Active Underwriter)

Non-executive directors:

J A Napier

M C Bailey

K N O'Shiel (appointed 14 November 2016)

C E Riley

A R Prindl (resigned 31 October 2016)

T C Wade

M J Yardley

Qualifying third-party indemnity provisions (as defined by section 234 of the Companies Act 2006) are in place for the benefit of the directors and, at the date of this report, are in force in relation to certain losses and liabilities which they may incur (or have incurred) in connection with their duties, powers or office.

The managing agent also has the benefit of a group insurance company management activities policy effected by Chubb Limited (AUAL's ultimate holding company). No charge was made to AUAL during the year for this policy.

Directors' Participations

None of the directors participates on the syndicate on a bespoke basis. Certain directors participate indirectly on the syndicate by virtue of their interests in the stock of Chubb Limited.

Managing Agent's Report

Statement of Managing Agent's Responsibilities

The managing agent is required by the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 to prepare syndicate annual accounts for Syndicate 2488 for each financial year which give a true and fair view of the state of affairs of the syndicate and of its profit or loss for that year.

In preparing these syndicate annual accounts the managing agent is required to:

- i) select suitable accounting policies which are applied consistently with the exception of changes arising on the adoption of new accounting standards in the year;
- ii) make judgements and estimates that are reasonable and prudent;
- iii) state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the syndicate annual accounts; and
- iv) prepare the syndicate annual accounts on the basis that the syndicate will continue to write future business unless it is inappropriate to presume that the syndicate will do so.

The directors of the managing agent confirm that they have complied with the above requirements in preparing the syndicate annual accounts.

The managing agent is responsible for keeping adequate accounting records that are sufficient to show and explain the syndicate's transactions and disclose with reasonable accuracy at any time the financial position of the syndicate and enable it to ensure that the syndicate annual accounts comply with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. The managing agent is also responsible for safeguarding the assets of the syndicate and hence for taking reasonable steps to prevent and detect fraud and other irregularities.

Legislation in the UK concerning the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Statement as to Disclosure of Information to Auditors

Each of the persons who is a director of the managing agent at the date of this report confirms that:

- i) So far as he/she is aware, there is no information relevant to the audit of the syndicate's annual accounts for the year ended 31 December 2016 of which the auditors are unaware, and
- ii) The director has taken all steps that he/she ought to have taken in his/her duty as a director in order to make him/herself aware of any relevant audit information and to establish that the syndicate's auditors are aware of that information.

Managing Agent's Report

Independent Auditors

The 2008 Lloyd's Regulations require that the auditors of the syndicate annual accounts be appointed by the members of the syndicate, initially for the syndicate annual accounts for the 2009 year end after which provisions for deemed reappointment of auditors will apply. PricewaterhouseCoopers LLP is deemed to have been reappointed as the auditors of the syndicate annual accounts for the 2016 year end.

On 10th December 2001, Lloyd's granted consent to PricewaterhouseCoopers LLP continuing to act as syndicate auditors for Syndicate 2488 (for the 2002 and previous years of account) and as corporate auditors for AUAL and other Chubb group companies (for the 2002 financial year). This consent was, in effect, an extension of the consent granted previously in relation to the 2001 and prior years of account and has been further extended without time limit.

Approved by the board and signed on its behalf



M K Hammond

Director

17 March 2017

Independent Auditor's Report

Report on the syndicate annual accounts

Our Opinion

In our opinion, Syndicate 2488 syndicate annual accounts (the "syndicate annual accounts"):

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2016 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

What we have audited

The syndicate annual accounts for the year ended 31 December 2016, included within the Annual Report and Financial Statements (the "Annual Report"), comprise:

- the Balance Sheet as at 31 December 2016;
- the Profit and Loss Account for the year then ended;
- the Statement of Comprehensive income for the year then ended;
- the Statement of Changes in Members' Balances;
- the Statement of Cash Flows; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the syndicate annual accounts is United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the Managing Agent has made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on matter prescribed by The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008

In our opinion the information given in the Managing Agent's Report for the financial year for which the syndicate annual accounts are prepared is consistent with the syndicate annual accounts.

Other matters on which we are required to report by exception

Under The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- the Managing Agent in respect of the syndicate has not kept adequate accounting records; or
- the syndicate annual accounts are not in agreement with the accounting records.

We have no exceptions to report arising from this responsibility.

Responsibilities for the syndicate annual accounts and the audit

Our responsibilities and those of the Managing Agent

As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 18, the Managing Agent is responsible for the preparation of the syndicate annual accounts in accordance with United Kingdom Generally Accepted Accounting Practice and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the syndicate annual accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Independent Auditor's Report

This report, including the opinions, has been prepared for and only for the syndicate's members as a body in accordance with part 2 of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of syndicate annual accounts involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the syndicate annual accounts sufficient to give reasonable assurance that the syndicate annual accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the syndicate's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Managing Agent; and
- the overall presentation of the syndicate annual accounts.

We primarily focus our work in these areas by assessing the Managing Agent's judgements against available evidence, forming our own judgements, and evaluating the disclosures in the syndicate annual accounts.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited syndicate annual accounts and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.



James Pearson (Senior statutory auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
17 March 2017

The maintenance and integrity of the AUAL website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Profit and loss account

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2016

		<u>2016</u>	<u>2015</u>
	Note	£'000	£'000
TECHNICAL ACCOUNT – GENERAL BUSINESS			
EARNED PREMIUMS, NET OF REINSURANCE:			
Gross premiums written	4	407,504	377,516
Outward reinsurance premiums		<u>(89,919)</u>	<u>(88,464)</u>
Net premiums written		<u>317,585</u>	<u>289,052</u>
Change in the gross provision for unearned premiums		(3,612)	(10,987)
Change in the provision for unearned premiums – reinsurers' share		<u>(3,053)</u>	<u>11,315</u>
EARNED PREMIUMS, NET OF REINSURANCE		<u>310,920</u>	<u>289,380</u>
ALLOCATED INVESTMENT RETURN TRANSFERRED FROM THE NON-TECHNICAL ACCOUNT	8	<u>30,092</u>	<u>2,774</u>
CLAIMS INCURRED, NET OF REINSURANCE:			
Claims paid:			
Gross amount	4	(238,712)	(212,186)
Reinsurers' share		<u>43,419</u>	<u>62,870</u>
Net paid claims		<u>(195,293)</u>	<u>(149,316)</u>
Change in the provision for claims outstanding:			
Gross amount	4	104,891	98,782
Reinsurers' share		<u>(24,182)</u>	<u>(71,288)</u>
Change in the net provision for claims outstanding		<u>80,709</u>	<u>27,494</u>
CLAIMS INCURRED, NET OF REINSURANCE		<u>(114,584)</u>	<u>(121,822)</u>
Net operating expenses		<u>(117,060)</u>	<u>(113,529)</u>
BALANCE ON THE TECHNICAL ACCOUNT FOR GENERAL BUSINESS		<u>109,368</u>	<u>56,803</u>

All of the above results derive from continuing operations.

Profit and loss account

		<u>2016</u>	<u>2015</u>
		£'000	£'000
NON-TECHNICAL ACCOUNT	Note		
BALANCE ON THE GENERAL BUSINESS			
TECHNICAL ACCOUNT		109,368	56,803
Investment income	8	38,266	35,199
Unrealised gains on investments	8	77,114	44,098
Investment expenses and charges	8	(7,041)	(4,760)
Unrealised losses on investments	8	(62,262)	(68,401)
Allocated investment return transferred to the general business technical account	8	(30,092)	(2,774)
Profit / (loss) on exchange		<u>1,643</u>	<u>(3,748)</u>
PROFIT FOR THE FINANCIAL YEAR		<u>126,996</u>	<u>56,417</u>

All of the above results derive from continuing operations.

There is no difference between the profit on ordinary activities before taxation and the profit for the financial year, for the current or prior year and their historical costs equivalents

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016

	<u>2016</u>	<u>2015</u>
	£'000	£'000
PROFIT FOR THE FINANCIAL YEAR	126,996	56,417
Currency translation differences	75,664	20,418
TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR	<u>202,660</u>	<u>76,835</u>

Balance sheet

BALANCE SHEET AS AT 31 DECEMBER 2016			
	Note	2016 £'000	2015 £'000
ASSETS			
INVESTMENTS			
Other financial investments	9	1,233,548	1,098,970
REINSURERS' SHARE OF TECHNICAL PROVISIONS			
Provision for unearned premiums		46,899	42,726
Claims outstanding		309,444	283,092
		356,343	325,818
DEBTORS – amounts falling due within one year			
Debtors arising out of direct insurance operations: amounts owed by intermediaries			
		73,174	71,529
Debtors arising out of reinsurance operations			
		65,402	54,249
Other debtors	10	10,334	3,019
		148,910	128,797
DEBTORS – amounts falling due after one year			
Other debtors	10	721	3,170
Cash at bank and in hand			
		121,023	98,768
PREPAYMENTS AND ACCRUED INCOME			
Deferred acquisition costs		48,592	36,742
Other prepayments and accrued income		10,552	8,982
		59,144	45,724
TOTAL ASSETS		1,919,689	1,701,247

Balance Sheet

BALANCE SHEET AS AT 31 DECEMBER 2016			
	Note	2016 £'000	2015 £'000
LIABILITIES			
CAPITAL AND RESERVES			
Members' balances	11	556,146	450,189
TECHNICAL PROVISIONS			
Provision for unearned premiums		222,168	184,189
Claims outstanding		962,146	916,284
		<u>1,184,314</u>	<u>1,100,473</u>
DEPOSITS RECEIVED FROM REINSURERS			
		57	48
CREDITORS -- amounts falling due within one year			
Creditors arising out of direct insurance operations			
Creditors arising out of reinsurance operations		57,411	52,489
Bank loans and overdrafts		116,917	92,605
Other creditors	12	1,262	3,070
		<u>175,590</u>	<u>148,164</u>
ACCRUALS AND DEFERRED INCOME			
Other accruals and deferred income		3,582	2,373
		<u>1,919,689</u>	<u>1,701,247</u>

The syndicate annual accounts on pages 22 to 51 were approved by the board of ACE Underwriting Agencies Limited on 15 March 2017 and were signed on its behalf by:


Mark K Hammond
Director

17 March 2017

Statement of Changes in Members' Balances

	<u>Members' Balances</u> £'000
AT 1 JANUARY 2015	463,950
Profit for the financial year	56,417
Net transfer into members' balances designated as Funds at Lloyd's	37,411
Profit distribution	(128,005)
Currency translation differences	20,416
	<hr/>
AT 31 DECEMBER 2015	450,189
	<hr/>
Profit for the financial year	126,996
Net transfer into members' balances designated as Funds at Lloyd's	(28,378)
Profit distribution	(68,325)
Currency translation differences	75,664
	<hr/>
AT 31 DECEMBER 2016	556,146
	<hr/>

Statement of Cash Flows

	Note	2016 <u>£'000</u>	2015 <u>£'000</u>
RECONCILIATION OF OPERATING PROFIT TO NET CASH			
FLOW FROM OPERATING ACTIVITIES			
Operating result		126,996	56,417
Increase/(decrease) in gross technical provisions		83,842	(73,566)
(Increase)/decrease reinsurers' share of gross technical provisions		(30,525)	53,660
(Increase)/decrease in debtors		(31,083)	(28,422)
Increase in creditors		4,322	2,817
Investment return		(46,076)	(6,128)
Other		<u>(119,892)</u>	<u>(5,953)</u>
Net cash flows from operating activities		<u>(12,416)</u>	<u>(1,175)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of equity and debt instruments		(325,959)	(332,740)
Sale of equity and debt instruments		367,977	361,697
Investment income received		31,311	30,431
Other		15,957	29,392
CASH FLOWS FROM FINANCING ACTIVITIES			
Transfers to members in respect of underwriting participations		(68,325)	(128,005)
Profits added to funds in syndicate		34,884	37,409
Funds in syndicate released to member		(63,203)	0
Foreign Exchange		(226)	456
Net (decrease) / increase in cash and cash equivalents		<u>(20,000)</u>	<u>(2,535)</u>
Cash and cash equivalents at beginning of year		25,596	22,341
Foreign exchange on cash and cash equivalents		7,423	5,790
Cash and cash equivalents at end of year		13,019	25,596
Cash at bank and in hand	13	121,023	98,768
Short term deposits with credit institutions	13	8,913	19,433
Overdrafts	13	(116,917)	(92,605)
Cash and cash equivalents at end of year		<u>13,019</u>	<u>25,596</u>

Notes to the Financial Statements

1. BASIS OF PREPARATION

These annual accounts include all sources of capital supporting the operations of the syndicate. Capital is provided to Lloyd's by the syndicate's members in the form of Funds at Lloyd's ("FAL"), and held in trust as disclosed in note 11. Given that Syndicate 2488 is a fully aligned syndicate, with 100% of the underwriting capacity provided by ACE corporate capital vehicles, these accounts are able to disclose the total FAL supporting the operations of the syndicate (see note 15).

The syndicate annual accounts have been prepared in accordance with the provisions of Schedule 3 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 ("SI2008/410"), Regulation 5 of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ("the 2008 Lloyd's Regulations") and applicable accounting standards in the United Kingdom, including Financial Reporting Standard FRS 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and Financial Reporting Standard FRS 103, "Insurance Contracts" ("FRS 103").

These annual accounts have been prepared on a going concern basis. The principal accounting policies, which are set out below, have been applied consistently to all the years presented unless otherwise stated. The company has adopted FRS 102 and FRS 103 in these financial statements.

Syndicate 2488's functional currency is US dollars. The presentational currency is sterling.

2. ACCOUNTING POLICIES

Premiums written

Premiums written, which are stated gross of brokerage but exclusive of premium taxes, relate to business inception during the year, together with adjustments made in the year to premiums written in prior accounting periods. Estimates are made of pipeline premiums, representing amounts due but not yet received or notified to the syndicate by intermediaries.

Unearned premiums

Unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force at the balance sheet date, calculated on the basis of established risk profiles or time apportionment as appropriate.

Acquisition costs

Acquisition costs comprise brokerage, commissions and other related costs, and are deferred over the period in which the related premiums are earned.

Claims incurred

Claims incurred comprise the estimated cost of all claims occurring during the year, whether reported or not, including related direct and indirect expenses and adjustments to claims outstanding from previous years. Where applicable, deductions are made for reinsurance, salvage and other recoveries.

Notes to the Financial Statements

2. ACCOUNTING POLICIES – continued

Provision for claims outstanding and related reinsurance recoveries

The provision for claims outstanding is assessed on an individual case basis and is based on the estimated ultimate cost of all claims notified but not settled by the balance sheet date, together with the provision for related claims handling costs and deduction for expected salvage and other recoveries. The provision also includes the estimated cost of claims incurred but not reported (“IBNR”) at the balance sheet date based on statistical methods.

These methods generally involve projecting from past experience of the development of claims over time to form a view of the likely ultimate claims to be experienced for more recent underwriting, having regard to variations in the business accepted and the underlying terms and conditions. For the most recent years, where a high degree of volatility arises from projections, estimates may be based in part on output from rating and other models of the business accepted and assessments of underwriting conditions. The amount of salvage and subrogation recoveries is separately identified and where material reported as an asset.

The reinsurers’ share of the provision for claims outstanding is based on the amounts of outstanding claims and projections for IBNR, net of estimated irrecoverable amounts, having regard to the reinsurance programme in place for the class of business, the claims experience for the year and the current security rating of the reinsurance companies involved. A number of statistical methods are used to assist in making these estimates.

The two most critical assumptions as regards the provision for claims outstanding are that the past is a reasonable predictor of the likely level of claims development and that the rating and other models used for current business are fair reflections of the likely level of ultimate claims to be incurred.

The directors consider that the provision for gross claims outstanding and related reinsurance recoveries are fairly stated on the basis of the information currently available to them. However, the ultimate liability will vary as a result of subsequent information and events and this may result in significant adjustments to the amounts provided. Adjustments to the amounts of claims provisions established in prior years are reflected in the financial statements for the period in which the adjustments are made. The methods used, and the estimates made, are reviewed regularly.

When calculating the provision for claims outstanding, the reported business segments are subject to specific issues, as set out below:

Fire and other damage to property; marine, aviation and transport; accident and health

These business segments are predominantly “short tail”; that is there is not a significant delay between the occurrence of the claim and the claim being reported to the syndicate. The costs of claims notified to the syndicate at the balance sheet date are estimated on a case by case basis to reflect the individual circumstances of each claim. The ultimate expected cost of claims is projected from this data by reference to statistics, which show how estimates of claims incurred in previous periods have developed over time to reflect changes in the underlying estimates of the cost of notified claims and late notifications.

Third party liability (including marine and aviation liability)

Liability claims are longer tail than the classes of business described above and so a larger element of the provision for claims outstanding relates to IBNR. Claims estimates for the syndicate’s liability business are derived from a combination of loss ratio based estimates and an estimate based upon actual claims experience using a predetermined formula whereby greater weight is given to actual claims experience as time passes. The initial estimate of the loss ratio based on the experience of previous years adjusted for factors such as premium rate changes and claims inflation, and on the anticipated market experience, is an important assumption in this estimation technique. In respect of liability claims, the assessment of claims inflation and anticipated market experience is particularly sensitive to the level of court awards and to the development of legal precedent on matters of contract and tort. The liability class of business is also subject to the emergence of new types of latent claims but no allowance is included for this as at the balance sheet date.

Notes to the Financial Statements

2. ACCOUNTING POLICIES – continued

Reinsurance acceptances

This business segment includes both short tail and longer tail business, and is subject to the issues laid out in the preceding two sections.

Unexpired risks provision

A provision for unexpired risks is made where claims and related expenses arising after the end of the financial period in respect of contracts concluded before that date, are expected to exceed the unearned premiums and premiums receivable under these contracts, after the deduction of any acquisition costs deferred. The provision for unexpired risks is calculated by reference to classes of business which are managed together, after taking into account relevant investment return.

Investment return

Investment return comprises all investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses, charges and interest. Both realised investment gains and losses are included as part of investment return in the profit and loss account. Dividends receivable are accounted for by reference to the date on which the price of the investment is quoted ex-dividend. Interest and expenses are accounted for on an accruals basis.

Realised gains and losses on investments carried at bid value are calculated as the difference between net sale proceeds and purchase price. Movements in unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date and their purchase price or, if they have previously been revalued, their valuation at the last balance sheet date, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

Investment return is initially recorded in the non-technical account. A transfer is made from the non-technical account to the general business technical account to reflect the investment return on funds supporting underwriting business. Other than investment return on Funds at Lloyd's retained within the syndicate, all investment return has been wholly allocated to the technical account.

Investments

Investments in marketable securities are stated at bid value on the balance sheet date. For quoted investments where there is an active market, this is their quoted bid price at the balance sheet date. For quoted investments where there is no active market, the bid value is determined by reference to prices for similar assets in active markets.

Overseas deposits are stated at cost or market value, as notified by Lloyd's.

Investments – fair value through profit and loss

A financial asset is classified into this category at inception if they are acquired principally for the purpose of selling in the short term, if they form part of a portfolio of financial assets in which there is evidence of short-term profit-taking, or if so designated to minimise any measurement or recognition inconsistency with the associated liabilities.

Financial assets designated as fair value through profit and loss are initially recognised at fair value with any transaction costs being expensed through the profit and loss account. For quoted investments where there is an active market, the fair value is their quoted bid price at the balance sheet date. For quoted investments where there is no active market, the fair value is determined by reference to prices for similar assets in active markets.

Insurance and other receivables

Insurance and other receivables are recognised at fair value less any provision for impairment. Any impairment of a receivable will be recognised if there is evidence that the company will not be able to collect the amounts receivable according to the original terms of the receivable.

Notes to the Financial Statements

2. ACCOUNTING POLICIES – continued

Insurance and other payables

Payables arising from insurance contracts, creditors and deposits received from reinsurers, are initially measured at cost, which is equal to fair value, net of transaction costs.

Taxation

Under Schedule 19 of the Finance Act 1993 managing agents are not required to deduct basic rate income tax from trading income. In addition, all UK basic rate income tax deducted from syndicate investment income is recoverable by managing agents and consequently the distribution made to members is gross of tax. Capital appreciation falls within trading income and is also distributed gross of tax.

No provision has been made for any United States Federal Income Tax payable on underwriting results or investment earnings. Any payments on account made by the syndicate during the year have been included in the balance sheet under the heading "other debtors".

No provision has been made for any other overseas tax payable by members on underwriting results.

Foreign currencies

Foreign currency transactions are accounted for, in functional currency, at the exchange rates prevailing at the date of the transactions. Gains and losses resulting from the settlement of such transactions, from translating such transactions into the functional currency of the syndicate, and from the revaluation to year end exchange rates of monetary assets and liabilities, are recognised in the profit and loss account.

At each period end foreign currency monetary items are translated using the closing rate. For this purpose all assets and liabilities arising from insurance contracts (including unearned premiums, deferred acquisition costs and unexpired risks provisions) are monetary items. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Results recorded in their functional currency, are translated into sterling at average rates of exchange for the year while assets and liabilities are translated to sterling at year end exchange rates. Differences arising on translation are recorded in the statement of comprehensive income.

Profit commission

Profit commission is chargeable by the managing agent at a rate of 15% of the year of account profit, subject to the operation of a deficit clause. This does not become payable until after the appropriate year of account closes, normally at 36 months.

The managing agent has waived its right to the receipt of profit commission for the 2012, 2013 and 2014 years of account. It is currently anticipated that the profit commission will also be waived for the 2015 and 2016 years of account.

3. CAPITAL MANAGEMENT & FINANCIAL RISK MANAGEMENT

Capital management

AUAL assesses its capital needs on a risk management basis and maintains an efficient capital structure consistent with the company's risk profile and business requirements, and to meet regulatory requirements. The company then seeks to maintain financial strength and capital adequacy to support business growth and meet the requirements of policyholders, rating agencies and regulators, whilst retaining financial flexibility by ensuring substantial levels of liquidity. Once the capital needs have been met, it is the policy of the company to distribute any surplus capital through dividends to its ultimate parent company.

Notes to the Financial Statements

3. CAPITAL MANAGEMENT & FINANCIAL RISK MANAGEMENT – continued

From a prudential perspective, the Lloyd's market is regulated by the PRA and is subject to insurance solvency regulations which specify the minimum amount and type of capital that must be held. In line with regulatory requirements AUAL manages its capital levels in 2016 in the context of Solvency II and the Funds at Lloyd's requirement.

Solvency II regulation came into force on 1 January 2016. From 1 January 2016, the syndicate's regulatory capital requirement has been set according to the Solvency II Internal Model. The company performs tests and controls to ensure continuous and full compliance with the Solvency II regulations.

The primary objectives of the company in managing capital can be summarised as follows:

- to satisfy the requirements of its policyholders, regulators and rating agencies;
- to match the profile of its assets and liabilities, taking account of the risks inherent in the business;
- to manage exposures to key risks;
- to maintain financial strength to support new business growth;
- to retain financial flexibility by maintaining strong liquidity.

Insurance risk

Insurance risk arises from fluctuations in the frequency and/or severity of claims. The syndicate mitigates this risk by maintaining underwriting discipline throughout its operations. This policy is supported by each strategic business unit's underwriting guidelines, expertise and appropriate authority limits. These guidelines are updated regularly to reflect developments in the nature of the insurance risks being underwritten. The syndicate also uses a reinsurance programme to manage its insurance risk by providing cover against certain large exposures.

Sensitivity to insurance risk

As highlighted in note 1, there is inherent uncertainty in the ultimate cost of claims for which the company uses a variety of different actuarial techniques to estimate the provision for claims outstanding. If the net claims ratio for the year had been higher by 1%, then the profit for the financial year would have been lower by £3.1m (2015: £2.9m) and members' balances would have been lower by £3.1m (2015: £2.9m). If the net claims ratio had been lower by 1%, then the profit for the financial year would have been higher by £3.1m (2015: £2.9m) and members' balances would have been higher by £3.1m (2015: £2.9m).

Concentrations of insurance risk

As set out in Note 4, the syndicate writes a diverse book of business across a number of underwriting classes. Approximately 46% of the gross written premiums for 2016 (2015: 40%) related to property and casualty line of insurance, with the remainder split across a number of other classes.

Geographically, 69.7% (2015: 69.8%) of gross premiums written 2015 relates to risks within the United States of America, with the remainder being spread across Europe, Asia Pacific and Latin America.

Notes to the Financial Statements

3. CAPITAL MANAGEMENT & FINANCIAL RISK MANAGEMENT – continued

Financial risk management objectives

The syndicate is exposed to a range of financial risks through its financial assets and financial liabilities. The most important components of this financial risk are market risk (including interest rate risk and currency risk), liquidity risk and credit risk.

These financial risks principally arise from the investment activity of the business and consequent holdings in fixed income investments, all of which are exposed to general and specific market movements. The underwriting activity of the business also generates financial risk, particularly in the form of currency risk as well as liquidity and credit risk through its insurance and reinsurance receivables and payables.

The notes below explain how financial risks are managed. The processes used to manage these risks are unchanged from previous periods, and cover areas such as investment activity through stochastic modelling of the portfolio, within its internal capital model and consequent capital requirements.

Investment activity governance

The managing agent operates an Investment Committee which functions under terms of reference determined by the Executive Committee of the Board. The Committee is charged with establishing and effecting an appropriate investment policy for the syndicate having regard to the financial risk appetite of the syndicate. In addition, the committee has the responsibility for recommending the appointment and removal of investment managers, for reviewing the managers' performance and for reporting on all other material aspects of the investment function.

The Investment Committee comprises senior Chubb management and is chaired by the Chief Executive Officer of Chubb Asset Management, the group's investment specialists who provide advisory services to Chubb group companies including AUAL. The Committee also includes the Chief Executive Officer, Chief Financial Officer and Treasurer of the managing agent.

The investment management function is outsourced to specialist external managers.

Asset allocation policy

The Investment Committee has established a broad asset allocation policy which defines the limits for different asset types. The asset allocation policy cites two major asset classes: investment grade fixed income securities and alternative assets. Alternative assets can include equities, high yield and emerging market instruments. The policy stipulates a target range of between 75% and 100% for investment grade fixed income securities and a range of between 0% and 25% for alternative asset classes. The current allocation to alternative assets sits at the mid of the target range, however, the position is regularly reviewed by the Investment Committee. The syndicate held no equities and emerging market instruments in 2016.

Investment guidelines

Investment management agreements have been established with the external investment managers. The agreements include specific guidelines for each individual portfolio in order to limit risks arising from duration, currency, liquidity, credit and counterparty exposures. The managers provide quarterly affirmation of compliance with these guidelines.

Notes to the Financial Statements

3. CAPITAL MANAGEMENT & FINANCIAL RISK MANAGEMENT – continued

Interest rate risk

The syndicate is exposed to interest rate risk primarily through its investments in fixed interest securities and, to the extent that claims inflation is correlated to interest rates, its liabilities to policyholders. Interest rate risk arises in the fixed income investment portfolio primarily through instrument duration. Accordingly, the investment guidelines include restrictions relating to the maximum weighted average duration of the portfolio. The restriction is stated by reference to the permissible duration variance compared to the customised benchmark index by which the external investment managers' performance is assessed.

Sensitivity analysis for interest rate risk illustrates how changes in the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates at the reporting date. To illustrate the downside risk within the fixed interest portfolio of £1,130.3 million at external managers as at 31 December 2016 (2015: £958.5 million), an increase of 50 basis points in interest yields across all portfolios consecutively (principally sterling, euro and US dollars) has been calculated. Such an increase would decrease the market value of the investment portfolio and lead to a decrease in the total investment return of £27.1 million (2015: £23.0 million) and accordingly decrease total shareholders' funds by £27.1 million (2015: £23.0 million).

Equity price risk

The syndicate held no equities in 2016 (2015: Nil) and as a result the syndicate is not susceptible to equity price risk.

Currency risk

The syndicate is primarily exposed to currency risk in respect of assets and liabilities under policies of insurance denominated in currencies other than sterling. The syndicate maintains various currency balances generated through regular business activity but the majority of the funds held are denominated in sterling, euros, Canadian dollars and US dollars. The syndicate's policy seeks to ensure that an approximate currency match of assets and liabilities is maintained, with the bulk of surplus funds held in Canadian dollars and US dollars.

Any component of the members' funds denominated in currencies other than sterling gives rise to currency risk due to exchange rate volatility relative to sterling.

The accounting policy for foreign currencies is stated in note 2 to the financial statements.

For the profit and loss account, the 2016 average US dollar/sterling rate of US\$1.375/£1 is down 11% on the prior period (2015: US\$1.539/£1). Had the average sterling rate weakened against the US dollar by a further 10% compared to the actual 2016 average and all other variables remained constant, the profit for the year would have been £10.5 million more than the amount reported.

For the monetary components of the balance sheet, the yearend rates used to convert US dollar to sterling has decreased 15% to US\$1.266/£1 (2015: US\$1.489/£1). Assuming sterling had weakened by a further 10% against US dollar and all other variables remained constant, the effect of translating year end net assets based on these parameters would have resulted in increased members' balances of £61.8 million, which would have appeared as a gain in the statement of comprehensive income.

Notes to the Financial Statements

3. CAPITAL MANAGEMENT & FINANCIAL RISK MANAGEMENT – continued

Liquidity risk

Liquidity risk is the risk that the syndicate is unable to meet its obligations as they fall due. To counter this risk, the syndicate aims to maintain funds in the form of cash or cash equivalents to meet known cash flows. In addition, the asset allocation policy and the investment guidelines are structured in order to ensure that funds are predominantly held in investment grade fixed income securities, the proceeds of which are readily realisable.

However, a significant share of the syndicate's investments is held to meet regulatory deposit requirements which may not be available to meet recommended liquidity needs.

AUAL participates in a notional pooling programme with other Chubb group companies under a facility operated by Bank Mendes Gans, a subsidiary of ING, which specialises in global liquidity management. The facility operates by the notional pooling of designated balances of the Chubb group participants in order to provide additional liquidity. Chubb group participants may overdraw individual account balances to fund immediate short term needs against credit balances held elsewhere within the pool. On this basis, AUAL maintained an overdraft of £116.9 million at year end (2015: £92.6 million) and credit balances of £118.7 million (2015: £95.4 million).

The syndicate also benefits from letter of credit facilities which can be utilised to meet certain funding needs and notional pooling facilities with other ACE group companies which serve to provide additional liquidity.

As indicated in the balance sheet, the syndicate's financial liabilities are all payable within one year. Non-derivative financial liabilities with contractual maturities are payable within normal terms of trade, which is on average 60 days. Non-derivative financial liabilities with contractual maturities are limited to reinsurance premiums payable and expense accruals.

31 December 2016

	No stated Maturity	0-1 year	1-3 years	3-5 years	>5years	Total
Deposits received from reinsurers	57	-	-	-	-	57
Claims outstanding	-	303,164	321,096	154,872	183,013	962,146
Creditors	-	175,590	-	-	-	175,590
Total liquidity risk	57	478,754	321,096	154,872	183,013	1,137,793

31 December 2015

	No stated Maturity	0-1 year	1-3 years	3-5 years	>5years	Total
Deposits received from reinsurers	48	-	-	-	-	48
Claims outstanding	-	269,072	296,784	145,599	204,828	916,284
Creditors	-	148,164	-	-	-	148,164
Total liquidity risk	48	417,236	296,784	145,599	204,828	1,064,496

Notes to the Financial Statements

3- CAPITAL MANAGEMENT & FINANCIAL RISK MANAGEMENT – continued

Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. The syndicate is exposed to credit risk through its investment activity and its insurance operations.

The syndicate is exposed to investment credit and price risk as a result of its holdings in fixed income. The risk in respect of fixed income investments is moderated by the application of detailed investment guidelines which limit the size of holdings with individual issuers, restrict duration and dictate minimum credit quality, both for individual holdings and for the aggregate weighted portfolio.

The average credit quality of investment portfolios using Moody's ratings remained high throughout the year and at year end was "A+". This is comparable to the previous year ("A+").

The investment guidelines seek to limit the credit risk of each of the portfolios through specifying eligible/ineligible investments; setting maximum counterparty exposures and minimum weighted credit quality and individual issuer credit quality.

Credit risk – insurance operations

The syndicate is exposed to credit risk as a result of its regular insurance and reinsurance activity. The areas of key exposure are:

- reinsurers' share of provision for claims outstanding;
- debtors arising from reinsurers in respect of claims already paid;
- amounts due from direct insurance and reinsurance policyholders; and
- amounts due from direct insurance and reinsurance intermediaries.

Ceded reinsurance is used to manage and mitigate inwards direct insurance and reinsurance risk. Ceded reinsurance does not discharge the syndicate's liability as primary insurer. If a ceded reinsurer fails to pay a claim, the syndicate remains liable for the payment to the policyholder. A Reinsurance Security Committee is operated by the Chubb group which analyses the creditworthiness of ceded reinsurers on a quarterly basis by reviewing their financial strength. In addition, the recent payment history of ceded reinsurers is used to update the reinsurance purchasing strategy.

With regard to direct insurance and reinsurance receivables, the syndicate operates a committee to review broker security, a process for monitoring arrangements with managing general agents, and, in certain circumstances, the requirement for collateral to be posted by the policyholder to the benefit of the syndicate.

The assets bearing credit risk are summarised below:

	2016	2015
	£'000	£'000
Other financial investments	1,233,548	1,098,970
Reinsurers' share of technical provisions	356,343	325,818
Debtors arising out of direct insurance operations	73,174	71,529
Debtors arising from reinsurance operations	65,402	54,249
	-----	-----
Total assets bearing credit risk	1,728,467	1,550,566
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Notes to the Financial Statements

3. CAPITAL MANAGEMENT & FINANCIAL RISK MANAGEMENT – continued

Other financial investments are designated as fair value through profit or loss at inception, and their performance evaluated on a fair value basis, in accordance with a documented investment strategy as detailed in note 1. The Moody's credit rating for other financial investments is detailed below.

	2016	2015
	£'000	£'000
AAA	179,715	242,744
AA	478,282	353,137
A	257,649	225,496
BBB	184,767	172,778
Below BBB or not rated	133,135	104,815
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Total assets bearing credit risk	1,233,548	1,098,970
	<hr/>	<hr/>

Other financial investments are neither past due nor impaired.

The amount of change, during the period and cumulatively, in the fair value of receivables that is attributed to changes in credit risk is represented by the provision for impairment against receivables past due.

Reinsurers' share of technical provisions includes claims outstanding, related claims handling costs and IBNR. This is described along with the valuation methods in note 1. This balance includes 0.0% past due that have been impaired (2015: 0.0%).

Debtors arising out of direct and reinsurance operations are held at fair value less any provision for impairment as described in note 1. They include 0.0% (2015: 1.1%) that have been impaired and 18.0% (2015: 14.44%) that are past due, but not impaired. The latter is aged 15.8% up to six months (2015: 13.4%), 0.0% six months to a year (2015: 1.7%) and the remaining 2.2% is older than a year (2015: minus 0.7%).

The Standard and Poor's credit rating for reinsurers share of claims outstanding and debtors arising out of reinsurance operations that are neither past due nor impaired are detailed below.

	2016	2015
	£'000	£'000
AA	201,566	176,857
A	125,799	116,224
BBB	(205)	(62)
Below BBB or not rated	16	8
Not rated	2,676	2,572
	<hr/>	<hr/>
Total assets bearing credit risk	329,852	295,599
	<hr/>	<hr/>

Notes to the Financial Statements

4. SEGMENTAL ANALYSIS

Segmental information in the format required by Schedule 3 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 is as follows:

Segmental information in the format required by Schedule 3 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 is as follows:

	Gross premiums written £'000	Gross premiums earned £'000	Gross claims incurred £'000	Gross operating expenses £'000	Reinsurance balance £'000
Year to 31 December 2016					
Direct insurance					
Fire and other damage to property	158,569	154,429	(54,064)	(72,017)	(3,128)
Marine, aviation and transport	47,160	44,164	25,834	(13,804)	(10,064)
Accident and health	4,170	4,656	(2,589)	(1,875)	258
Third party liability	87,955	87,669	(55,825)	(30,633)	4,034
Miscellaneous	13,687	13,882	(10,076)	(7,366)	3,098
Reinsurance acceptances	95,963	99,092	(37,101)	(6,892)	(52,405)
TOTAL	407,504	403,892	(133,821)	(132,587)	(58,207)

	Gross premiums written £'000	Gross premiums earned £'000	Gross claims incurred £'000	Gross operating expenses £'000	Reinsurance balance £'000
Year to 31 December 2015					
Direct insurance					
Fire and other damage to property	127,757	119,922	(36,053)	(49,942)	(4,335)
Marine, aviation and transport	46,386	49,051	(381)	(15,171)	(21,542)
Accident and health	4,980	4,716	(2,718)	(3,847)	423
Third party liability	79,342	78,810	(44,441)	(24,248)	17,022
Miscellaneous	23,737	18,587	(2,809)	(6,059)	(5,298)
Reinsurance acceptances	95,315	95,443	(27,003)	(27,389)	(58,710)
TOTAL	377,517	366,529	(113,405)	(126,656)	(72,440)

The reinsurance balance represents the credit/(charge) to the technical account from the aggregate of all items relating to outwards reinsurance.

All business is completed in the United Kingdom.

Notes to the Financial Statements

4. SEGMENTAL ANALYSIS – continued

Gross written premium information by destination (location of risk) as required by Schedule 1, Regulations 2015 (Part V, 84) is as follows:

	2016	2015
	£'000	£'000
United Kingdom	10,167	17,039
United States of America	284,027	263,669
Continental Europe	31,509	30,795
Africa and Middle East	12,098	6,633
Asia Pacific	28,519	27,707
Americas	41,184	31,673
	<u>407,504</u>	<u>377,516</u>

5. MOVEMENT IN PRIOR YEAR'S PROVISION FOR CLAIMS OUTSTANDING

The prior year's net provision for claims outstanding generated a surplus for 2016 (2015: surplus) as detailed below:

	2016	2015
	£'000	£'000
Direct insurance		
Fire and other damage to property	33,157	27,535
Marine, aviation and transport	59,314	16,424
Accident and health	880	819
Third party liability	20,040	40,213
Miscellaneous	(2,412)	(4,804)
Reinsurance acceptances	30,362	5,147
	<u>141,341</u>	<u>85,333</u>

2015 comparatives for this disclosure note have been restated. Previously stated figures included the movement on the entire technical account. This movement has been restated to solely include movement on prior year claims outstanding. This has no impact on prior period results.

Notes to the Financial Statements

6. NET OPERATING EXPENSES – TECHNICAL ACCOUNT

	2016 £'000	2015 £'000
Acquisition costs	102,401	96,234
Change in deferred acquisition costs	(5,187)	(1,337)
Administrative expenses	35,374	31,760
Reinsurance commissions	(15,528)	(13,128)
	<hr/>	<hr/>
	117,060	113,529
	<hr/>	<hr/>

“Acquisition costs” includes total commissions for direct business amounting to £76.9million (2015: £69.6 million).

“Administrative expenses” includes the managing agent’s fee (which covers most expenses generally classified as syndicate expenses) – net of an element of the fee deemed to be indirect acquisition costs and included within acquisition costs – Lloyd’s Central Fund contributions and Lloyd’s subscriptions.

The managing agent’s fee for 2016, before the transfer to acquisition costs, is £38.9 million (2015: £35.0 million).

Auditors’ remuneration

During the year, the syndicate obtained the following services from the managing agent’s auditors and their associates.

	2016 £'000	2015 £'000
Fees payable to the syndicate’s auditors and their associates for the audit of the syndicate’s annual accounts	256	220
Fees payable to the syndicate’s auditors and their associates for other services:		
Audit-related assurance services	92	148
Non-audit fees	66	122
	<hr/>	<hr/>
	413	491
	<hr/>	<hr/>

“Audit-related assurance services” includes reports under section 404 of the US Public Company Accounting Reform and Investor Protection Act 2002, and also the audit of the syndicate’s regulatory returns.

Notes to the Financial Statements

7. DIRECTORS AND EMPLOYEES

Staff costs

The managing agency has no employees (2015:none). Staff that support the syndicate and managing agency are employed by ACE INA Services U.K. Limited ("AIS"), a fellow Chubb group undertaking, and their costs are covered by the managing agency fee as described in note 6.

Directors' emoluments

All directors of the managing agent received emoluments from AIS in respect of their services to the syndicate and Chubb group companies. The cost of these emoluments is covered by the managing agent's fee and incorporated within the management charges from AIS to the managing agent. For disclosure purposes, it is not practical to allocate these amounts to the underlying entities to which the directors provide services. Consequently, the following amounts represent the total emoluments paid by AIS in respect of the directors of the managing agent.

	2016	2015
	£'000	£'000
Aggregate emoluments and benefits	3,426	3,034
Company pension contributions to money purchase pension schemes	8	88
	<hr/>	<hr/>
	3,434	3,122
	<hr/>	<hr/>

Included in the above amounts paid by AIS in respect of the directors of the managing agent, the active underwriter was paid a total of £600,513 (2015: £556,221) in respect of emoluments and benefits and the highest paid director was paid a total of £829,033 (2015: £787,668) in respect of emoluments and benefits. The amount of accrued pension and accrued lump sum in relation to the highest paid director at the end of the year was Nil (2015: Nil) and Nil (2015: Nil) respectively.

The aggregate emoluments above do not include share based remuneration. All executive directors of the managing agent are entitled to shares in ACE Limited under long-term incentive plans. During the year, four directors received shares in Chubb Limited under long-term incentive plans and four directors' exercised options over the shares of Chubb Limited. The active underwriter and highest paid director received shares in Chubb Limited under long-term incentive plans.

Pension benefits are accruing to two current directors under the ACE European Group UK Pension Plan (Stakeholder scheme). Until 31 March 2002, retirement benefits accrued under the ACE London Pension Scheme to one current director under the final salary section and to one current director under the money purchase section. Disclosures relating to this scheme are contained within the financial statements for AIS.

Notes to the Financial Statements

8. INVESTMENT RETURN

	2016 £'000	2015 £'000
Investment income		
Investment income	34,875	32,498
Gains on the realisation of investments	3,391	2,701
	<hr/>	<hr/>
	38,266	35,199
	<hr/>	<hr/>
Investment expenses and charges		
Investment management expenses	(1,741)	(1,480)
Losses on the realisation of investments	(5,300)	(3,280)
	<hr/>	<hr/>
	(7,041)	(4,760)
	<hr/>	<hr/>
Net unrealised gains less losses on investments		
Unrealised gains on investments	77,114	44,098
Unrealised losses on investments	(62,262)	(68,401)
	<hr/>	<hr/>
	14,852	(24,303)
	<hr/>	<hr/>
TOTAL INVESTMENT RETURN	46,077	6,136
	<hr/>	<hr/>

Investment return is analysed between:

Allocated investment return transferred to the general business:	30,092	2,774
Net investment return included in the non-technical account	15,985	3,362
	<hr/>	<hr/>
TOTAL INVESTMENT RETURN	46,077	6,136
	<hr/>	<hr/>

Notes to the Financial Statements

9. OTHER FINANCIAL INVESTMENTS

	2016	2015
	£'000	£'000
Market value:		
Debt securities and other fixed interest securities	1,130,277	985,471
Overseas deposits	73,239	71,867
Deposits with credit institutions	30,032	41,632
	<u>1,233,548</u>	<u>1,098,970</u>
Cost:		
Debt securities and other fixed interest securities	1,129,990	992,579
Overseas deposits	73,240	71,867
Deposits with credit institutions	30,032	41,632
	<u>1,233,262</u>	<u>1,106,078</u>

All securities are listed investments.

The overseas deposits are held under Lloyd's premium trust deed arrangements where applicable and are administered by Lloyd's. The syndicate is required to lodge deposits in various overseas insurance markets as a condition of conducting underwriting business in those markets. All such overseas deposits are calculated in accordance with the relevant territorial authority's requirements, usually by reference to outstanding liabilities derived from business written in those territories. Approximately 83% of the value of the deposits is invested in debt securities and other fixed interest securities, with the balance being held in deposits with credit institutions and cash.

£463.57 million (2015: £403.98 million) of the total market value relates to Funds at Lloyd's, as explained in note 11; this is analysed as follows:

Notes to the Financial Statements

9. OTHER FINANCIAL INVESTMENTS - continued

	2016	2015
	£'000	£'000
Market value:		
Debt securities and other fixed interest securities	458,779	394,518
Deposits with credit institutions	4,789	9,464
	<u>463,568</u>	<u>403,982</u>
Cost:		
Debt securities and other fixed interest securities	465,101	396,915
Deposits with credit institutions	4,789	9,464
	<u>469,890</u>	<u>406,379</u>

Fair Value Hierarchy

FRS 102 requires the company to classify financial instruments into a fair value hierarchy as follows:

- Level 1 – The unadjusted quoted price in an active market for identical assets or liabilities that the syndicate can access at the measurement date.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable (ie developed using market data) for the asset or liability, either directly or indirectly.
- Level 3 – Inputs are unobservable (ie for which market data is unavailable) for the asset or liability.

An analysis of financial instruments at 31 December 2016 by fair value hierarchy is set out below:

	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Debt securities and other fixed income securities	43,023	1,084,484	2,769	1,130,276
Loans and deposits with credit institutions	14,204	15,828	-	30,032
Overseas deposits	28,891	44,106	243	73,240
Total	<u>86,118</u>	<u>1,144,418</u>	<u>3,012</u>	<u>1,233,548</u>

Notes to the Financial Statements

9. OTHER FINANCIAL INVESTMENTS - continued

For securities in level 3 where pricing is based on unobservable inputs, valuations are sourced from models and / or third parties. Any third party models are reviewed and approved by the ACE Group's specialist asset management function on a quarterly basis. Significant uncertainty would be considered to exist in relation to pricing based on unobservable inputs. However, for Syndicate 2488 this uncertainty is considered to be immaterial as the exposure to these types of assets is insignificant – 0.24% of the investment portfolio as at 31 December 2016.

An analysis of financial instruments at 31 December 2015 by fair value hierarchy is set out below:

	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Debt securities and other fixed income securities	34,043	948,768	2,660	985,471
Loans and deposits with credit institutions	24,758	16,875	-	41,632
Overseas deposits	51,235	20,632	-	71,867
	<u>110,035</u>	<u>986,275</u>	<u>2,660</u>	<u>1,098,970</u>

For securities in level 3 where pricing is based on unobservable inputs, valuations are sourced from models and / or third parties. Any third party models are reviewed and approved by the ACE Group's specialist asset management function on a quarterly basis. Significant uncertainty would be considered to exist in relation to pricing based on unobservable inputs. However, for Syndicate 2488 this uncertainty is considered to be immaterial as the exposure to these types of assets is insignificant – 0.24% of the investment portfolio as at 31 December 2015.

'Debt securities and other fixed interest securities' with active markets such as Government securities are classified within Level 1, as fair values are based on quoted market prices. For debt securities and other fixed interest securities that trade in less active markets, including corporate securities, fair values are based on the output of pricing models, the significant inputs into which include, but are not limited to, yield curves, credit risks and spreads, measures of volatility, and prepayment speeds. These debt securities and other fixed interest securities are classified within Level 2. For debt securities and other fixed interest securities and debt securities and other fixed interest securities for which pricing is unobservable, these are classified within Level 3.

'Loans and deposits with credit institutions' includes short term investments, such as liquidity funds. Where such securities are traded in active markets, they are classified within Level 1, as fair values are based on quoted market prices. Where no active market exists for such securities they are typically classified within Level 2 and where pricing is unobservable, Level 3.

During the period no significant investments were transferred between Level 2 and Level 3.

	2016
	£'000
Balance at 1 January 2016	2,660
Gains (Losses) Recognised in the Profit and Loss Account	459
Purchases	0
Sales	(226)
Transfers in (out) of Level 3	<u>119</u>
Balance at 31 December 2016	<u>3,012</u>

Notes to the Financial Statements

10. OTHER DEBTORS

	<u>2016</u>	<u>2015</u>
	£'000	£'000
Amounts falling due within one year:		
Amounts due from members	3,222	0
Amounts due from group companies	7,005	2,391
Other debtors	107	628
	<u>10,334</u>	<u>3,019</u>
Amounts falling due after one year:		
Amounts due from members	721	3,170

Amounts due from members relate to payments on account of United States Federal Income Taxes.

11. MEMBERS' BALANCES

Members participate on syndicates by reference to years of account and their ultimate result, assets and liabilities are assessed with reference to policies incepting in that year of account in respect of their membership of a particular year.

Members' balances are supported by Funds at Lloyd's ("FAL"), as disclosed in note 15.

Members' balances carried forward at 31 December include £466.38 million (2015: £406.16 million) designated as FAL.

Members' balances designated as FAL are included in the following asset headings:

	2016	2015
	£'000	£'000
Other financial investments (note 8)	458,779	394,518
Deposits with credit institutions	4,788	9,464
Other prepayments and accrued income	2,814	2,182
	<u>466,381</u>	<u>406,164</u>
Total assets designated as Funds at Lloyd's		

Notes to the Financial Statements

12. OTHER CREDITORS

	2016	2015
	£'000	£'000
Amounts falling due within one year:		
Other creditors	1,262	3,070
	<hr/>	<hr/>
	1,262	3,070
	<hr/>	<hr/>

13. CASH AND CASH EQUIVALENTS

Reconciliation of cash and cash equivalents to the Balance Sheet Position

	2016	2015
	£'000	£'000
Cash at bank and in hand	121,023	98,768
Cash equivalents included within Financial Investments	8,913	19,433
Overdrafts	(116,917)	(92,605)
	<hr/>	<hr/>
	13,019	25,596
	<hr/>	<hr/>

Cash equivalents include deposits held at call with banks and other short term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Such investments are those with less than three months' maturity from the date of acquisition, or which are redeemable on demand with only an insignificant change in their fair values.

Notes to the Financial Statements

14. TRANSACTIONS WITH RELATED PARTIES

The ultimate holding company of the syndicate's managing agent, ACE Underwriting Agencies Limited ("AUAL"), is Chubb Limited, a company which is registered in Zurich, Switzerland and quoted on the New York Stock Exchange.

Copies of the ultimate holding company's consolidated accounts can be obtained from Investor Relations at ACE's executive offices at 17 Woodbourne Avenue, Hamilton HM 08, Bermuda.

The syndicate may have reinsured, or have been reinsured by, insurance companies in which Chubb Limited has interests and of which it and certain of its subsidiaries are controllers. During calendar year 2016, a number of outwards reinsurance contracts were effected with group companies. The main excess of loss reinsurance programmes in operation during 2016 were shared with other Chubb companies, including ACE European Group Limited. Included within outwards reinsurance premium in the technical account for the year ended 31 December 2016, £22.0 million relates to reinsurance contracts placed with group companies; of this amount, £17.5 million relates to reinsurance contracts placed with Chubb Tempest Reinsurance.

In addition, reinsurers' commissions (note 6) include £3.7 million in respect of the contracts placed with Chubb Tempest Reinsurance; of this amount, £3.1 million relates to reinsurance contracts placed with Chubb Tempest Reinsurance. The reinsurers' share of claims incurred in the technical account for the year ended 31 December 2016 includes £9.1 million in relation to reinsurance contracts placed with group companies; of this amount, £7.9 million relates to reinsurance contracts placed with Chubb Tempest Reinsurance. As at 31 December 2016, the reinsurers' share of the provision for claims outstanding includes £83.0 million recoverable from group companies; of this amount £71.6 million is recoverable from Chubb Tempest Reinsurance. As at 31 December 2016, the reinsurers' share of the provision for unearned premium includes £10.7 million in relation to reinsurance contracts placed with group companies; of this amount £9.5 million relates to reinsurance contracts placed with Chubb Tempest Reinsurance. Debtors arising out of reinsurance operations as at 31 December 2016 includes £21.9 million due from group companies, of which £5.9 million is due from Chubb Tempest Reinsurance. Creditors arising out of reinsurance operations as at 31 December 2016 includes £25.1 million due to group companies, of which £23.1 million is payable to Chubb Tempest Reinsurance.

The syndicate writes a delegated authority relating to business produced by ACE Tempest Reinsurance Canada Inc. ACE Tempest Reinsurance Canada Inc is authorised to write reinsurance on behalf of Chubb's licensed and admitted Canadian insurance companies. In addition, ACE Tempest Reinsurance Canada Inc is a Lloyd's approved service company and can offer clients access to the syndicate, which is also licensed and admitted in Canada.

The syndicate's capacity is provided entirely by ACE Capital Limited, ACE Capital IV Limited and ACE Capital V Limited, each of which trades as a corporate member of Lloyd's, participating only on Syndicate 2488. These companies are wholly owned subsidiaries within the ACE group.

Managing agency fees of £38.9 million (2015: £35.0 million) were paid by the syndicate to AUAL. Staff providing services to AUAL and the syndicate are employed by ACE INA Services U.K. Limited ("AIS"), another Chubb Limited company. AIS settles expenses on behalf of, and provides services to, the syndicate and AUAL.

15. FUNDS AT LLOYD'S

Every member is required to hold capital at Lloyd's which is held in trust and known as Funds at Lloyd's ("FAL"). These funds are intended primarily to cover circumstances where syndicate assets prove insufficient to meet participating members' underwriting liabilities and can therefore be considered as the capital supporting the operations of the syndicate.

The level of FAL that Lloyd's requires a member to maintain is determined by Lloyd's based on Prudential Regulatory Authority (PRA) requirements and resource criteria. FAL has regard to a number of factors including the nature and amount of risk to be underwritten by the member and assessment of the reserving risk in respect of business that has been underwritten. As referred to in notes 11 and 14, the syndicate's members have met their FAL requirements by the retention of closed year of account profits in the syndicate and a loan from a fellow ACE group company. At 31 December 2016 FAL totaled £466.38 million (2015: £406.16million).

Notes to the Financial Statements

16. CLAIMS DEVELOPMENT TABLES

The following tables show the development of claims over a period of time on both a gross and net of reinsurance basis. FRS 103 requires that claims development shall go back to the period when the earliest claim arose for which there is still uncertainty about the amount and timing of the claims payment, but need not go back more than 5 years from the first time adoption of this standard which was 2015. The top half of the table shows how the estimates of total claims for each underwriting year develop over time. The lower half of the table reconciles the cumulative claims to the amount appearing in the balance sheet.

The cumulative claims estimates and payments for each underwriting year are translated into sterling at the current year-end rates.

Claims development as at 31 December 2016 – Gross

	2011	2012	2013	2014	2015	2016	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Estimate of ultimates:							
End of underwriting year	151,255	136,384	101,409	99,192	103,313	107,829	699,383
One year later	319,204	273,527	263,112	245,827	235,665		1,337,335
Two years later	375,264	273,135	273,308	239,877			1,161,584
Three years later	307,111	245,716	262,311				815,138
Four years later	285,823	238,933					524,757
Five years later	282,798						282,798
Current estimate of ultimate claims	282,798	238,933	262,311	239,877	235,665	107,829	1,367,413
Cumulative payments	(229,569)	(169,441)	(159,393)	(124,660)	(83,296)	(19,126)	(785,484)
In balance sheet	53,229	69,492	102,917	115,217	152,368	88,703	581,928
Provision for prior financial years	380,218						
Liability in the balance sheet	962,146						

Notes to the Financial Statements

16. CLAIMS DEVELOPMENT TABLES – continued

Claims development as at 31 December 2016 – Net

	2011	2012	2013	2014	2015	2016	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Estimate of ultimates:							
End of underwriting year	115,156	96,783	76,161	77,016	73,218	80,080	518,413
One year later	225,857	205,732	200,008	195,767	175,190		1,002,554
Two years later	261,826	204,225	206,397	196,538			868,986
Three years later	210,962	198,336	199,603				608,902
Four years later	204,485	192,853					397,338
Five years later	206,977						206,977
Current estimate of ultimate claim:	206,977	192,853	199,603	196,538	175,190	80,080	1,051,240
Cumulative payments	(166,833)	(141,338)	(128,339)	(109,747)	(67,383)	(14,866)	(628,507)
In balance sheet	40,144	51,515	71,264	86,791	107,807	65,214	422,734
Provision for prior financial years	229,967						
Liability in the balance sheet	652,701						

17. SUBSEQUENT EVENTS

On 27th February the Lord Chancellor announced a change in the Ogden rate for discounting personal injury claims, reducing them to negative 0.75%. This change does not have a material effect on financial statements of Syndicate 2488.

Notes to the Financial Statements

18 RECONCILIATION OF INSURANCE BALANCES

The reconciliation of opening and closing deferred acquisition costs is as follows:

	<u>2016</u>	<u>2015</u>
	£'000	£'000
At 1 January	36,742	34,636
Change in acquisition costs deferred during the year	5,187	1,337
Foreign exchange gains/(losses)	<u>6,663</u>	<u>769</u>
At 31 December	<u>48,592</u>	<u>36,742</u>

The reconciliation of opening and closing unearned premium provision is as follows:

	Gross		Reinsurers' share	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
	£'000	£'000	£'000	£'000
At 1 January	184,189	169,624	42,726	30,439
Increase/(decrease) in provision	3,612	10,987	(3,053)	11,315
Foreign exchange movements	<u>34,368</u>	<u>3,578</u>	<u>7,226</u>	<u>972</u>
At 31 December	<u>222,169</u>	<u>184,189</u>	<u>46,899</u>	<u>42,726</u>

The reconciliation of opening and closing provision for claims is as follows:

	Gross		Reinsurers' share	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
	£'000	£'000	£'000	£'000
At 1 January	916,284	1,004,414	283,092	349,039
Increase/(decrease) in provision	(104,891)	(98,782)	(24,182)	(71,288)
Foreign exchange movements	<u>150,753</u>	<u>10,652</u>	<u>50,534</u>	<u>5,341</u>
At 31 December	<u>962,146</u>	<u>916,284</u>	<u>309,444</u>	<u>283,092</u>

19. ULTIMATE HOLDING COMPANY

The managing agent's immediate holding company is Chubb Leadenhall Limited. The managing agent's ultimate holding company is Chubb Limited, a company which is registered in Zurich, Switzerland and quoted on the New York Stock Exchange. Copies of the ultimate holding company's consolidated accounts can be obtained from Investor Relations at ACE's executive offices at 17 Woodbourne Avenue, Hamilton HM 08, Bermuda.

